

# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Julia H. Cooper

**SUBJECT: CITY OF SAN JOSE  
GENERAL OBLIGATION BONDS  
SERIES 2005 (LIBRARIES AND  
PUBLIC SAFETY PROJECTS)**

**DATE:** May 27, 2005

Approved

*Ray Winer*

Date

*5/31/05*

**COUNCIL DISTRICT:** City-Wide  
**SNI:** N/A

## RECOMMENDATION

Adoption of a resolution of the City Council:

- a. Authorizing the issuance of City of San José General Obligation Bonds, Series 2005 (Libraries and Public Safety Projects) (the "Series 2005 Bonds") in the not-to-exceed aggregate principal amount of \$55 million to be sold at a competitive sale.
- b. Approving, in substantially final form, the Fiscal Agent Agreement, the Preliminary Official Statement, Official Notice Inviting Bids, and ratifying the publication of the Notice of Intention to Sell, and authorizing the City Manager or other authorized officers to execute these documents and other related documents as necessary in connection with the issuance of the Series 2005 Bonds.

## BACKGROUND

At the City's general election held on November 7, 2000, voters approved Measure O (2000), the Neighborhood Libraries Bond, and Measure P, the Safe Neighborhood Parks & Recreation Bond, authorizing the issuance of general obligation bonds in the not-to-exceed respective amounts of \$211,790,000 and \$228,030,000. The projects to be funded by Measure O (2000) Bonds include the construction of new and expanded libraries (the "Libraries Project"). The projects to be funded by Measure P Bonds include the construction of improvements to neighborhood and regional parks, community centers and other recreational improvements (the "Parks Projects").

At the City's general election held on March 5, 2002, voters approved Measure O (2002), San José 911, Fire, Police, Paramedic and Neighborhood Security Act, authorizing the issuance of general obligation bonds in the not-to-exceed amount of \$159,000,000. The projects to be

funded by Measure O (2002) Bonds include the acquisition of property and construction of improvements in various areas throughout the City in order to add and improve police stations, fire stations and training facilities and to create a state of the art 911 communications facility (the "Public Safety Projects").

The City has previously issued three series of general obligation bonds against these voter authorizations. The Series 2001, Series 2002 and Series 2004 Bonds are currently outstanding in the aggregate amount of \$290,940,000. The Series 2005 Bonds would represent the fourth series of general obligation bonds that the City is issuing pursuant to Measure O (2000) and the third series of general obligation bonds that the City is issuing pursuant to Measure O (2002). At the present time, there is no need to issue general obligation bonds pursuant to Measure P.

Presented below in tabular format is a summary of the City's general obligation bond authorizations, the amounts utilized in prior general obligation bond issues, the proposed project funding amounts for 2005 and the remaining amounts of voter authorization.

<b>General Obligation Bond Authorization Level and Issuance Amounts</b>			
	Measure O (2000) Library Projects	Measure P Parks Projects	Measure O (2002) Public Safety Projects
Initial Authorization	\$211,790,000	\$228,030,000	\$159,000,000
Series 2001 Bonds	31,000,000	40,000,000	0
Series 2002 Bonds	30,000,000	46,715,000	39,375,000
Series 2004 Bonds	58,300,000	46,000,000	14,400,000
Series 2005 Bonds	21,300,000	0	25,000,000
<b>Remaining Authorization</b>	<b>\$71,190,000</b>	<b>\$95,315,000</b>	<b>\$80,225,000</b>

## **ANALYSIS**

This section of the report addresses staff's recommendation to proceed with the issuance of the Series 2005 Bonds. These subsections include discussions of the plan of finance, bond financing documents, financing team participants and the financing schedule.

### **Plan of Finance**

**Sale of 2005 Bonds** The Series 2005 Bonds will be sold on a competitive basis. The financial advisor to the City, Public Resources Advisory Group, will oversee the competitive sale with assistance from the Finance Department. The Series 2005 Bonds will be sold to the underwriter(s) presenting the best bid based on the lowest true interest cost. The interest rate payable in any year may not exceed eight percent (8%). Currently, the financing schedule calls for the competitive sale of the Series 2005 Bonds on June 16, 2005.

**Series 2005 Bonds are General Obligation of the City** The Series 2005 Bonds will be general obligations of the City. In accordance with all relevant provisions of law, the City will be obligated to levy *ad valorem* taxes upon all property within the City subject to taxation by the City, without limitation of rate or amount (except with respect to certain personal property which is taxed at limited rates), for the payment of the Series 2005 Bonds and the interest thereon. The City will be obligated to direct the County of Santa Clara to collect such *ad valorem* taxes in such amounts and at such times as is necessary to ensure the timely payment of debt service on the Series 2005 Bonds.

The amount of the annual *ad valorem* tax levied by the City to repay all outstanding general obligation bonds and the Series 2005 Bonds will be determined by the relationship between the assessed valuation of taxable property in the City and the aggregate amount of debt service due on the general obligation bonds. Fluctuations in the annual debt service on the general obligation bonds, future general obligation bond issuances and changes in the assessed value of taxable property in the City will cause the annual tax rate to vary each year. Economic and other factors beyond the City's control, such as economic recession, deflation of land values, a relocation out of the City by one or more major property taxpayers, or the complete or partial destruction of taxable property caused by, among other eventualities, earthquake, flood or other natural disaster, could cause a reduction in the assessed value within the City and necessitate a corresponding increase in the annual tax rate.

**Projected Repayment of the Series 2005 Bonds** Interest on the Series 2005 Bonds will accrue from the date of delivery of the Series 2005 Bonds, which is currently expected to be June, 23, 2005. Interest will be payable semi-annually on each March 1 and September 1, commencing with the March 1, 2006 payment. Principal on the Series 2005 Bonds will be payable annually over thirty years from September 1, 2006 through September 1, 2035. Given the current level of interest rates, the projected average borrowing cost of the Series 2005 Bonds is 4.35%. Total debt service on the Series 2005 Bonds is estimated to be \$81.2 million: \$46.3 million in repayment of principal and \$34.9 million in interest cost.

**Projected Tax Rates for All General Obligation Bonds** The Series 2005 Bonds will represent the fourth issuance of general obligation bonds by the City in recent times. After the issuance of the Series 2005 Bonds, the City will have \$337.24 million of general obligation bonds outstanding to be repaid through the levy of *ad valorem* property taxes. A projection of the annual cost to taxpayers with homes of various assessed values is provided in Attachment A.

As an example, for a homeowner with an assessed valuation of \$200,000, the projected minimum, average and maximum annual taxes paid over the term of all of the general obligation bonds issued to date including the Series 2005 Bonds is \$3.43, \$38.58, and \$58.46, respectively, for a total estimated tax of \$1,350.



**Estimated Series 2005 Bonds Sources and Uses of Funds**

The estimated sources and uses of funds for the financing are shown below:

<b>City of San Jose General Obligation Bonds, Series 2005 (Libraries and Public Safety Projects) Estimated Sources and Uses of Funds <sup>(1)</sup></b>	
<b>Sources of Funds:</b>	
Par Amount	\$46,300,000
Original Issue Premium	<u>2,437,939</u>
<b>Total Sources of Funds</b>	<b>\$48,737,939</b>
<b>Uses of Funds:</b>	
Deposits to Project Fund	
Libraries Account	\$21,300,000
Public Safety Account	25,000,000
Underwriter Discount	185,200
Costs of Issuance <sup>(2)</sup>	300,000
Deposit to Debt Service Account	<u>1,952,739</u>
<b>Total Uses of Funds</b>	<b>\$48,737,939</b>
<sup>(1)</sup> Preliminary; subject to change	
<sup>(2)</sup> Includes bond counsel, financial advisor, issuer fee, rating agency, trustee and printing costs	

It is anticipated that of the Series 2005 Bonds, \$21,300,000 will be issued for Library Projects and \$25,000,000 for Public Safety Projects. It is possible that these allocations may be adjusted prior to closing of the Series 2005 Bonds depending on the needs of the respective programs.

The portion of proceeds from the Series 2005 Bonds allocated to Libraries Projects are anticipated to cover encumbrance needs for the Libraries Projects through the next year.

The sizing of the Series 2005 Bonds for Public Safety Projects was based on the recommendations put forth in the Manager's Budget Addendum #10, "*Revisions to the Public Safety Capital Program in the 2005-06 Proposed Capital Budget and 2006-2010 Capital Improvement Program.*" These recommended changes reduce the amount of general obligation proceeds required in FY 2005-06 for public safety capital projects.

Following this issuance of \$46,300,000 of Series 2005 Bonds (assuming the allocation between the Libraries and Public Safety projects as shown above), the City will have \$71,190,000 and \$80,225,000 remaining in voter authorization for the Libraries Projects and

Public Safety Projects respectively. The City anticipates issuing additional series of GO bonds every one to two fiscal years as needed to complete the GO bond capital projects.

### **Bond Financing Documents**

There are a number of bond financing documents that require City Council approval to proceed with the Series 2005 Bonds. All of the documents described below, in substantially final form, will be available for review in the City Clerk's Office on or about May 27, 2005. Staff recommends that the City Manager or the City Manager's authorized designees ("Authorized Officers") each be authorized to execute each of the agreements described below. As modifications may be required prior to the closing, staff also recommends that the Authorized Officers each be authorized to execute the final version of each of these agreements as may be modified upon consultation with the City Attorney's Office.

**Official Statement** The Official Statement, or prospectus, has been prepared for the City by Bond/Disclosure Counsel. Appendix A to the Official Statement describes the City's current financial situation and provides other information useful to investors regarding the City. It has been prepared by Finance staff in close coordination with the City Attorney's office, City Manager's Budget office, Financial Advisor and Bond/Disclosure Counsel.

The Preliminary Official Statement will be distributed to bidders and investors primarily in electronic form. The Preliminary Official Statement generally discloses material information on the bond issue, such as the projects to be financed, the repayment source for the Series 2005 Bonds, credit enhancement for the Series 2005 Bonds (if applicable) and credit ratings. Investors may use this information to evaluate the credit quality of the Series 2005 Bonds. Staff has carefully reviewed the information contained in the Preliminary Official Statement and believes it to be accurate and complete in all material respects. Following the sale of the Series 2005 Bonds to the underwriters and prior to the closing, Bond/Disclosure Counsel will prepare a final Official Statement for the Series 2005 Bonds.

Staff recommends that the Authorized Officers each be authorized to sign the final Official Statement for the Series 2005 Bonds on behalf of the City and to make such modifications to these documents as may be necessary upon consultation with the City Attorney's Office. Staff also recommends that the Authorized Officers each be authorized to execute certificates regarding these documents as required to comply with securities laws and to authorize the underwriters to distribute these documents for the purpose of marketing the Series 2005 Bonds.

Copies of the draft Preliminary Official Statement along with the Appendix A which generally describes the City's demographic, economic and financial information, in substantially final form, will be distributed under separate cover on or about May 31, 2005. Staff has carefully reviewed the information contained in the draft Preliminary Official Statement and believes it to be accurate and complete in all material aspects.

***If any Councilmember has any personal knowledge that any of the material information in the Official Statement or Appendix A is false or misleading, the member must raise these issues prior to approval of the distribution of the document.***

City staff, bond counsel, and the financial advisor will be available at the Council meeting on June 7, 2005, to address any questions, issues and/or concerns.

**Fiscal Agent Agreement** This agreement is by and between the City of San José, as the issuer of the 2005 Bonds, and Wells Fargo Bank, as the Fiscal Agent for the 2005 Bonds. This agreement sets forth terms of the Series 2005 Bonds and contains the responsibilities and duties of the City and the Fiscal Agent and the rights of the bondholders.

**Official Notice Inviting Bids** This document describes the competitive bidding process, the bidding parameters governing the submission of bids by potential underwriters for the Series 2005 Bonds and the basis for awarding the Series 2005 Bonds to an underwriter. The Official Notice Inviting Bids advises potential bidders that they may procure bond insurance for some or all of the Series 2005 Bonds at the bidder's option and at the bidder's cost. The resolution authorizing the issuance of the Series 2005 Bonds authorizes the Authorized Officers to take the steps necessary to qualify the Series 2005 Bonds for bond insurance. Bids for the Series 2005 Bonds will be accepted over the Internet through the Parity system and by facsimile. The Official Notice Inviting Bids is provided to potential bidders along with the Preliminary Official Statement.

**Notice of Intention to Sell Bonds** This publication is the means by which the City notifies potential bidders of the upcoming sale of bonds and provides information on the availability of the Preliminary Official Statement and the Official Notice Inviting Bids. The Notice is scheduled to be printed in *The Bond Buyer*, the official publication for the municipal bond market, prior to the Council meeting in order to meet the timeline to close the bond issue before the end of the fiscal year. Incorporated in the resolution is the City Council's ratification of the publication in *The Bond Buyer*. If the City Council were to elect not to proceed with the sale of the Series 2005 General Obligation Bonds, a notice would be published canceling the sale.

**Continuing Disclosure Certificate** This Certificate is executed by the City for the benefit of the bondholders and in order to assist the participating underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). In executing this document, the City commits to notify certain parties if certain listed events occur and to annually file an update to certain information contained in the Official Statement.

### **Financing Team Participants**

The financing team participants consist of:

- Financial Advisor: Public Resources Advisory Group
- Bond/Disclosure Counsel: Jones Hall, A Professional Law Corporation
- Fiscal Agent: Wells Fargo Bank

All costs associated with the financial advisor, bond counsel and fiscal agent are contingent on the sale of the Series 2005 Bonds and will be paid from bond proceeds.

### **Financing Schedule**

The current proposed schedule is as follows:

- Council approval of bond documents including the POS June 7
- Distribute Preliminary Official Statement to market June 8
- Accept bids for the 2005 Bonds June 16
- Bond Closing; Bond proceeds available June 23
- Tax rates for outstanding GO bonds approved by Council August 9

### **OUTCOMES**

Approval of the recommendations will provide necessary funds to meet the capital financing needs of the Library and Public Safety GO Bond Programs based on the Proposed Capital Budget for the Library Program and based on MBA #10 for the Public Safety Program.

### **PUBLIC OUTREACH**

Not applicable.

### **COORDINATION**

This report was prepared by the Finance Department in coordination with the City Manager's Budget Office, the City Attorney's Office, the Public Works, Library, Police and Fire Departments and the financing team participants.

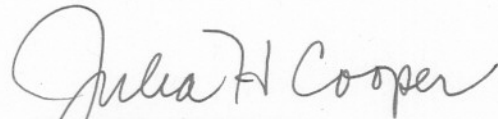


**FISCAL IMPACT**

No appropriation of funds is required at this time. Compensation for all the consultants (financial advisor, bond counsel and fiscal agent) and the costs of the financing (including the underwriting compensation) is contingent on the sale of the Series 2005 Bonds and will be paid from bond proceeds. The costs of issuance and underwriter's compensation for the Series 2005 Bonds will be covered by the underwriter delivering proceeds to the City in excess of the par amount of the Series 2005 Bonds (the "bid premium"). Application of the bid premium to cover the cost of the financing will ensure that voter authorization will be spent directly on project-related costs.

**CEQA**

Not a Project.

A handwritten signature in cursive script that reads "Julia H. Cooper".

JULIA H. COOPER  
Deputy Director, Finance Department

Attachment



**Attachment A**  
**Projected General Obligation Tax Rate for**  
**Various Levels of Assessed Values**

FYE	GO Series Aggregate Annual Debt Service*	\$100,000 AV Homeowner's Tax Payment	\$200,000 AV Homeowner's Tax Payment	\$500,000 AV Homeowner's Tax Payment	\$750,000 AV Homeowner's Tax Payment	\$1,000,000 AV Homeowner's Tax Payment
Total	\$ 621,536,788	\$ 675	\$ 1,350	\$ 3,375	\$ 5,063	\$ 6,751
2002	\$ 2,633,121	\$ 3.64	\$ 7.27	\$ 18.18	\$ 27.26	\$ 36.35
2003	9,280,499	11.09	22.18	55.44	83.16	110.88
2004	14,716,048	16.60	33.21	83.02	124.52	166.03
2005	18,049,474	19.53	39.06	97.65	146.48	195.31
2006	25,230,660	27.30	54.60	136.51	204.76	273.02
2007	27,012,898	29.23	58.46	146.15	219.23	292.30
2008	26,555,735	28.74	57.47	143.68	215.52	287.35
2009	26,081,298	28.22	56.44	141.11	211.67	282.22
2010	25,577,310	27.68	55.35	138.38	207.58	276.77
2011	25,050,585	27.11	54.21	135.53	203.30	271.07
2012	24,520,898	26.53	53.07	132.67	199.00	265.34
2013	23,964,023	25.93	51.86	129.66	194.48	259.31
2014	23,412,273	25.33	50.67	126.67	190.00	253.34
2015	22,897,713	24.78	49.55	123.89	185.83	247.77
2016	22,400,515	24.24	48.48	121.20	181.79	242.39
2017	21,880,753	23.68	47.35	118.38	177.58	236.77
2018	21,338,903	23.09	46.18	115.45	173.18	230.90
2019	20,782,203	22.49	44.98	112.44	168.66	224.88
2020	20,202,928	21.86	43.72	109.31	163.96	218.61
2021	19,614,745	21.22	42.45	106.12	159.19	212.25
2022	19,025,380	20.59	41.17	102.94	154.40	205.87
2023	18,436,015	19.95	39.90	99.75	149.62	199.49
2024	17,846,650	19.31	38.62	96.56	144.84	193.12
2025	17,257,285	18.67	37.35	93.37	140.05	186.74
2026	16,663,045	18.03	36.06	90.15	135.23	180.31
2027	16,073,634	17.39	34.79	86.96	130.45	173.93
2028	15,483,928	16.75	33.51	83.77	125.66	167.55
2029	14,894,222	16.12	32.23	80.58	120.88	161.17
2030	14,304,516	15.48	30.96	77.39	116.09	154.79
2031	13,714,809	14.84	29.68	74.20	111.30	148.41
2032	13,120,228	14.20	28.39	70.99	106.48	141.97
2033	10,226,375	11.07	22.13	55.33	82.99	110.66
2034	5,989,750	6.48	12.96	32.41	48.61	64.81
2035	5,714,750	6.18	12.37	30.92	46.38	61.84
2036	1,583,625	1.71	3.43	8.57	12.85	17.14
Minimum		\$ 1.71	\$ 3.43	\$ 8.57	\$ 12.85	\$ 17.14
Average		\$ 19.29	\$ 38.58	\$ 96.44	\$ 144.66	\$ 192.88
Maximum		\$ 29.23	\$ 58.46	\$ 146.15	\$ 219.23	\$ 292.30

\* Includes annual debt service for Series 2001, 2002 and 2004 GO Bonds, and estimated annual debt service for Series 2005 GO Bonds.